

Speaking Notes

Firm LD Contracts as Designated Network Resources

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- Morgan Stanley Strongly Supports FERC's Decision to Allow Off-system Firm Liquidated Damages (FLD) Contracts to be approved as Designated Network Resources (DNRs)
 - More choices, greater flexibility for market participants
 - Improved reliability for individual transactions and system-wide
 - More efficient resource utilization
 - Lower cost to customers

- However, revision to two of the provisions for approval of off-system FLD Contracts as DNRs would greatly enhance the benefits derived from this decision in advancing competitive markets

- Absent these revisions, the benefits of this decision are substantially diminished

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- Currently Order 890 requires that a Firm LD contract to be approved as a DNR must specify, among other things, 1) the origin of the supply resource or control area, and 2) a single transmission path on “Firm Transmission”

- Greater flexibility in these two criteria would greatly enhance the effectiveness of FLD contracts in competitive markets, without compromising system planning needs or reliability

- Furthermore, these changes will improve reliability of delivery, enhance resource utilization, increase market efficiency and reduce costs to customers

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- Competitive markets are better served by offering more choices and flexibility that enable participants to continually adjust behavior based on conditions at a point in time, not by replacing choices and flexibility with rigid provisions that lock participants into a single outcome over time
- Knowledgeable schedulers operating in competitive markets, responding to price signals to make informed decisions among a variety of resources and transmission paths, will produce the most reliable and cost-effective outcome
- Broader supply source and transmission path choices provide
 - options for seeking out the most reliable and cost-effective path
 - contingencies for mitigation of TLRs or other problems
- Flexibility and supply choices enable the harnessing of competitive market forces, leading to more efficient outcomes and lower costs

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- Relaxing the requirement to designate supply sources for LD contracts and specific transmission paths creates flexibility of scheduling and power flow, improving reliability and reducing cost, an outcome not achievable under the rigidity imposed by fixed source designation

- In practice, the loss of flexibility to manage flows hour to hour to mitigate problems such as loop flows, etc. impedes the functioning of the market, increases chances of non-delivery, decreases reliability, and raises cost to customers

- Flexibility and choice to respond to current operating conditions, rather than tying delivery obligations to a single unit, control area or transmission path, produces the most reliable and lowest cost outcome

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Actual Transmission Usage Examples

The following actual usage data demonstrate the fallacy of the assertion that a single, locked in “Firm” path is more reliable than a choice of multiple paths, both Firm and Non-firm

In the West:

- Palo Verde 500 to Westwing 500 path for June flowed an average of 600 MW each weekday on non-firm transmission without curtailment
- For July 1 – 23, this path flowed an average of 1500 MW each weekday on non-firm transmission, without issue
- However, flows on the Nevada – Oregon Border (NOB) on long term firm transmission gets cut several times a month

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Actual Transmission Usage Examples

In the Southeast:

- SOCO to DUK path from June 1 – July 23 flowed a daily average of 110 MW on non-firm transmission and experienced one cut of 2 MW
- PJM to DUK path for the same time period flowed a daily average of about 55 MW on non-firm transmission, with no cuts
- For that same period we were cut 16 MW on firm transmission SOCO to DUK (atypical) and 83 MW PJM to DUK (commonplace, due to ramp issues)

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Actual Transmission Usage Examples

- Conclusion: our actual experience in the market has shown that so-called “Firm” transmission often may be no more firm than “Non-Firm” transmission, and, depending on circumstances, is often less firm
- The most “Firm”, IE, reliable outcome results from having the flexibility to choose among a variety of paths to mitigate problems, not from being locked into a single contractual path, regardless of whether that path is labeled “Firm” or “Non Firm”

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Actual Transmission Usage Examples – In Summary

- Individuals closest to the situation, with experience and knowledge of the various sources and paths throughout a particular area, are best able to judge the most reliable and cost effective source and path to flow power at any point in time
- A single, arbitrary locked-in source and path, whether firm or non-firm, is a poor substitute for the real-time judgment of those actually scheduling the power, with FLD obligations to deliver
- Locking market participants into contractual provisions short-circuits competitive market forces and inevitably leads to an outcome that is both less reliable and more costly to customers

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- Contractual locking-in of a supply source and a single “Firm” transmission path is supposedly needed to facilitate transmission planning to model expected power flows, including loop flows

- However, physical power flows
 - Are not determined by contractually designated power sources or transmission paths
 - Are determined by loads and resources dispatched by every Balancing Authority area in the region

- Expected physical power flow can be accurately derived using economic dispatch models that simulate actual dispatch, given load level and resource costs

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- Use of such economic dispatch models for system planning is consistent with utility procedures within control areas and is the best predictor of actual and expected flow of power throughout the transmission grid
- Power flows, including loop flows, are best predicted, and planning is most effectively accomplished by assuming economic dispatch of units, consistent with congestion analysis
- Not through the assumption of arbitrary contractual supply sources and transmission paths that may or may not be economic at any given time

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- Customers, buyers and sellers of power, and competitive markets are best served through policies that encourage efficient transmission planning and operation that
 1. Utilize an economic dispatch model based on marginal costs of resources, consistent with congestion cost analysis, to forecast actual and expected power flows for transmission system operation and planning purposes
 2. Reduce loop flow issues across the system over time, and
 3. Accommodate the choices and flexibility essential to competitive markets

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Greater flexibility in requirements of off-system FLD as DNR in the areas of origin of supply and transmission path designation would

- Greatly enhance the effectiveness of FLD contracts as DNRs in competitive markets

- Not Compromise system planning needs or reliability

- Improve reliability of delivery, enhance resource utilization, increase market efficiency and reduce costs to customers

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